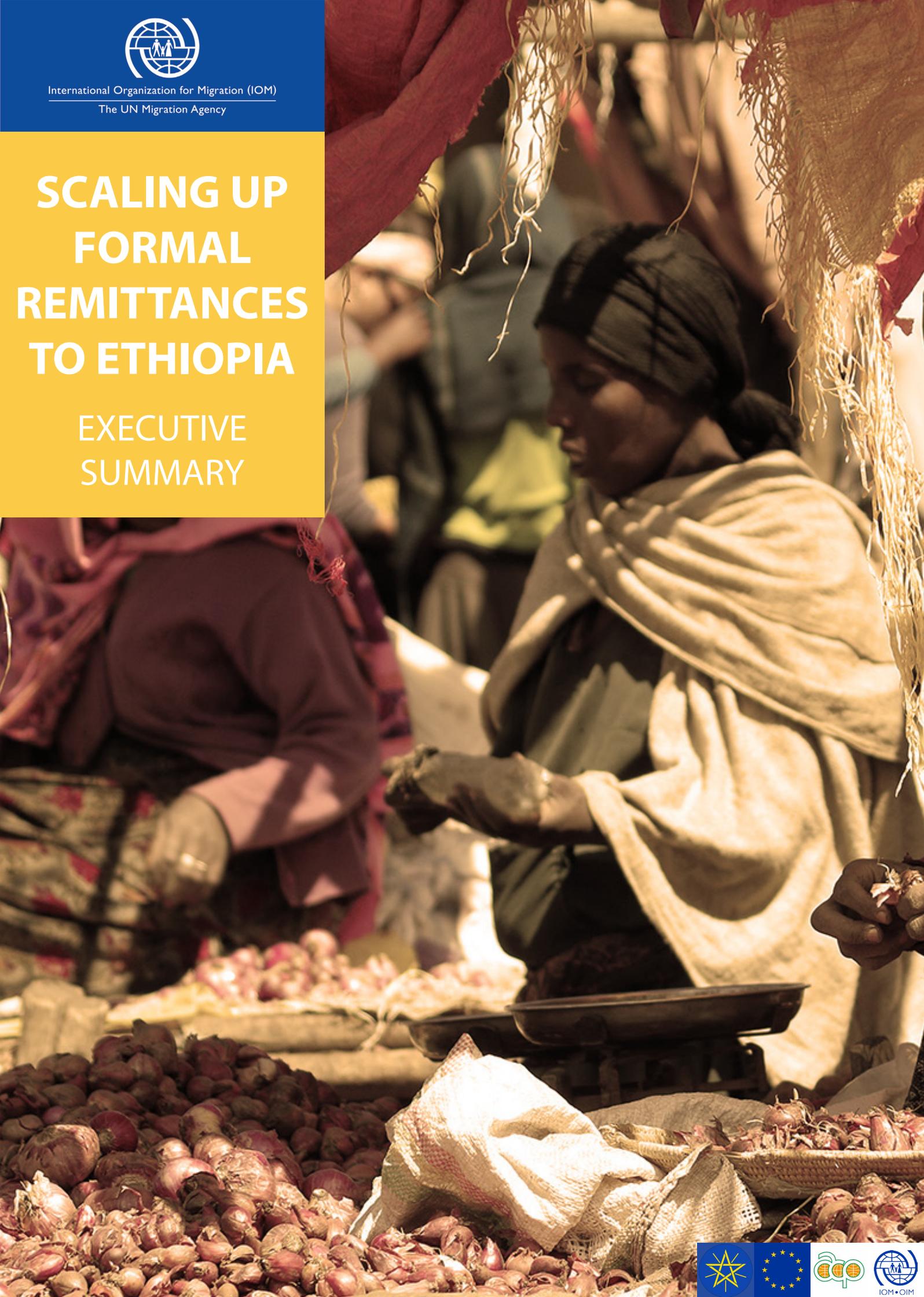




International Organization for Migration (IOM)
The UN Migration Agency

SCALING UP FORMAL REMITTANCES TO ETHIOPIA

EXECUTIVE SUMMARY



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ABOUT & ACKNOWLEDGEMENTS

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Leon was also Managing Director of the International Association of Money Transfer Networks, an international trade association, between 2008 and 2013, where he interacted with numerous regulators and stakeholders to represent the industry. He is an observer to the G20 Consultative Committee of the Private-Public Sector Partnership on Remittances and has a number of honorary roles within the industry.

Leon has spoken at, and chaired, numerous international conferences on remittances including at the World Bank, the United Nations and the G8. He was a steering group member of the U.K. Government's Remittances Task Force, from its inception in 2005 until the completion of its work early in 2010.

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**Leon Isaacs, Paris
August 2017**





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The UN Migration Agency

SCALING UP FORMAL REMITTANCES TO ETHIOPIA:

The Executive Summary of a Research
Study to Enhance the Volume and Value
of Formal Remittances to Ethiopia

By Leon Isaacs, August 2017



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INTRODUCTION

Migrant remittances account for over 5 per cent of the Gross Domestic Product (GDP) of Ethiopia and one quarter of the country's foreign exchange earnings. The value of incoming remittances exceeded the country's export earnings in the first ten months of 2016.¹ At the household level, remittances also represent a vital source of income for many individual recipients.

The size and scale of remittances also creates the possibility for harnessing these flows for productive investment, thus contributing to the long-term development of Ethiopia.

While the Government has made great strides in recent years to increase the flow of formal remittances, evidence suggests that informal networks remain a prominent way for Ethiopians to send money home. This report calculates that as much as 78 per cent of total remittances may currently be sent through informal channels in some corridors. This represents both a major opportunity and a major challenge.

In some corridors, 78 per cent of total remittances are sent through informal channels

Lack of access to services in the send and receive markets, high direct and indirect costs associated with formal channels, irregular migration, the existence of parallel market exchange rates, and regulatory barriers for undocumented migrants contribute to the high level of informal transfers.

Informal flows not only represent a loss of foreign exchange for the Government of Ethiopia, but also reduce the opportunities to encourage investment,

are a risk to the consumer, and prevent the Government from tracking flows for Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) purposes.

To address these challenges, this Executive Summary outlines the policy agendas in this area at both the global level and for Ethiopia specifically. It describes the flow of remittances to Ethiopia and provides an overview of barriers preventing the Ethiopian diaspora from using formal remittance transfer mechanisms. It also puts forward practical solutions to enhance the flow of formal remittances, including recommendations to support development through diaspora remittances and investment.

This Executive Summary is the abridged version of a report titled **'Research Study to Enhance the Volume and Value of Formal Remittances to Ethiopia.'**

OVERVIEW OF THE POLICY AGENDA

THE GLOBAL POLICY AGENDA:

There has been increasing weight given to international remittances within the global policy agenda in recent years. In part, this reflects the growing understanding that improving and harnessing the flow of remittances can have a substantial impact on development. It also reflects the increasing scrutiny of illicit flows and their links to money laundering and terrorist financing, particularly after the 11 September 2001 attacks on the United States.

Examples of global initiatives include the G8's commitment in July 2009 at the L'Aquila Summit, which is also known as the '5x5 Objective'. The aim was to reduce the global average cost of sending remittances from 10 per cent of the send amount to 5 per cent in the following five years. At the same summit, the World Bank was asked to create the Global Remittances Working Group (GRWG) to facilitate and coordinate international efforts to make remittance markets more efficient and reduce the costs. With the global average cost of sending remittances at 7.42 per cent of the send amount in Q3 of 2016, significant gains have been made to lower the cost of sending money home. However, the target of 5 per cent is some way from being reached.

Following on from the '5x5 Objective', the G20 Development Working Group on Financial Inclusion and Remittances adopted a 'Plan to Facilitate Remittance Flows' in 2014. In this plan, their commitment to the 5 per cent target was reconfirmed (although a specific timescale was not committed to), and there was also a commitment to using remittance flows to drive financial inclusion and development.²

Reducing remittance prices has now been included as a target within the Sustainable Development

Goals (SDGs), as well as at the United Nations' Third International Conference on Financing for Development in Addis Ababa. SDG 10.c is explicit in its target to, 'by 2030, reduce to less than 3 per cent the transaction costs of migrant remittances and eliminate remittance corridors with costs higher than 5 per cent'.

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The Maya Declaration, launched in 2011 at the Global Policy Forum (GPF) in Riviera Maya, Mexico, is an initiative to unlock the economic and social potential of the two billion unbanked people in the world through improved financial inclusion. In total, 58 Maya Declaration Commitments have been made, including by Ethiopia. This represents 51 per cent of the Alliance for Financial Inclusion's (AFI) growing membership, which is currently comprised of more than 100 financial regulatory and policy-making institutions from over 90 developing and emerging countries.

A final important initiative is the African Institute for Remittances (AIR). Established in November 2014, and hosted by the Government of Kenya in Nairobi, AIR is a technical office of the African Union Commission. It was established with the aid of the European Union, IOM, the World Bank and a number of other donors. AIR has a number of key areas of focus, including: reducing the cost of remittances to and within Africa, helping central banks to improve data collection on remittances, and establishing a

peer network.

AIR's broader aims includes:

- ▶ Providing technical assistance to government institutions (Central Banks, ministries, financial and non-financial institutions) on establishing and operating the necessary regulatory frameworks
- ▶ Carrying out training and capacity-building programmes of relevant institutions and organisations (for example, national statistical services departments)
- ▶ Studying remittances flows within Africa
- ▶ Conducting policy research and dialogue and sharing information on how remittances can better contribute to the development of African countries
- ▶ Developing content and technology platforms for country-based payment and settlement systems for remittances
- ▶ Developing partnerships between African Central Banks, remittance service providers (RSPs), and non-bank correspondent agencies to improve financial access
- ▶ Disseminating data and research findings on good practices through annual reports, conferences and workshops for stakeholders as well as meetings with the region's policy-makers.

THE POLICY AGENDA IN ETHIOPIA:

Several positive measures have been taken by the Government of Ethiopia (GOE) in recent years to improve the operations and flow of formal remittances, as well as to reduce the costs of transfers and increase access to international remittance services.

Some place remittances as part of a wider development and financial inclusion agenda, while others address remittances and diaspora development directly. The main initiatives and directives of note are outlined below.

The Growth and Transformation Plan II, 2015/16 - 2019/20

The Growth and Transformation Plan (GTP) was a national five-year plan created by the GOE to improve the country's economy by achieving a projected GDP growth of 11-15 per cent per year from 2010 to 2015. GTP I is complete and was replaced by GTP II, which was published in May 2016.

Some of the key priorities of the plan include:

modernizing the agriculture sector, expanding industrial development with a primary focus on light manufacturing, shifting to export development, and increasing financial access levels. GTP II is an important milestone towards realizing Ethiopia's vision of becoming a lower middle-income country by 2025. Among other areas, GTP II recognized remittances as one of the contributing factors for the positive development witnessed in relation to the balance of payments of the country. The National Foreign Affairs Policy and National Security Policy and Strategy also recognize the role of the Ethiopian diaspora in terms of sending remittances, investment, and knowledge transfer.

Maya Declaration, 2011

Ethiopia signed the Maya Declaration in 2011. In doing so, it committed to modernising the national payments systems, improving financial access, expanding digital financial services and improving financial literacy. This fed into GTP I and the subsequent rapid expansion of banking services, which has brought many rural communities within easy access of formal remittance services.

The joint plan of the National Bank of Ethiopia (NBE) and Ministry of Labour and Social Affairs (MoLSA) to train emigrants on banking procedures was also part of the Declaration and aims to further extend financial inclusion in Ethiopia by enhancing migrants' knowledge of formal transfers.

Directive No. FXD/30/2006, National Bank of Ethiopia

The GOE has introduced a number of measures that seek to improve the remittances environment and to attract remittances to formal channels. The first and foremost of such measures is the NBE Directive No. FXD/30/2006 and its amendment of 2009.

The aim of the Directive (entitled 'Provisions for International Remittance Services') is to enhance incoming remittance transfers, including reducing remittance costs and increasing access to reliable, fast and safe remittance services.

The Directive and its amendment in 2009 mandated several important principles, including RSPs arranging non-exclusive conditions when making agency agreements between them, the transparency in MTOs fees, and zero commission in local banks for the pay-out of remittances.³

Directive No. NO. FXD/31/2006, National Bank of Ethiopia

In 2006, the GOE introduced Directive No. FXD/31/2006, allowing the opening of foreign currency accounts for Non-Resident Ethiopians.⁴ The aim of this Directive is to create incentives for the Ethiopian diaspora to invest domestically, as well as to improve Ethiopia's international foreign exchange reserves.⁵ The Directive allows accounts for the Ethiopian diaspora to be maintained in USD, GBP (pound sterling) and EUR (euro). These accounts can be used to make foreign payments for imports (provided the account holder has the required business license), make local payments in Birr, make transfers to other foreign currency accounts, and serve as collateral or a guarantee for loans or bids. The NBE has also been involved with Ethiopia Electric and Power Corporation in an attempt to encourage the diaspora to invest in major electricity generation projects through the issuance of diaspora bonds.

REMITTANCE FLOWS TO ETHIOPIA

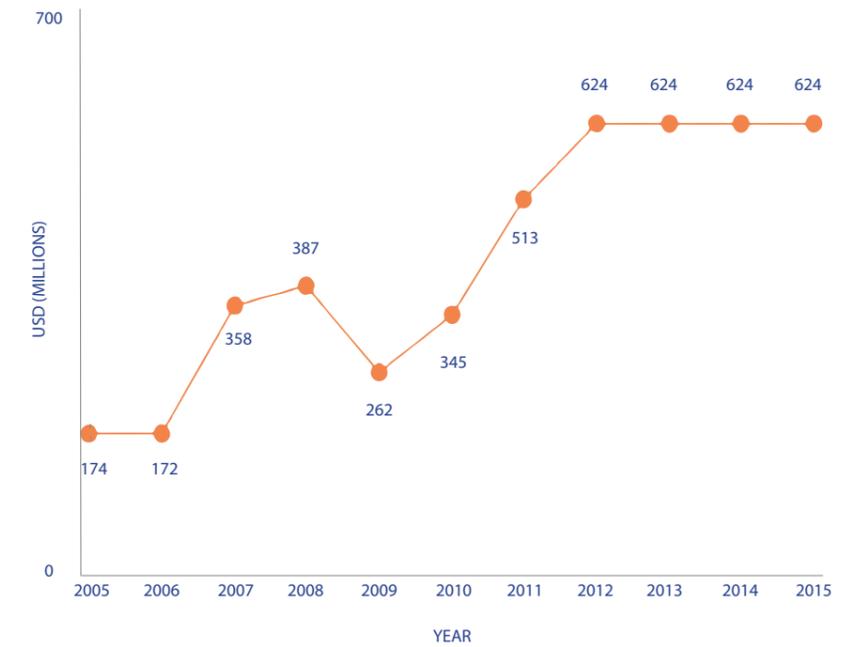
Various figures exist for estimating the total remittance flows into Ethiopia. Official International Monetary Fund (IMF) figures place the total value of remittances to Ethiopia at USD 3-3.5 billion (2014/2015) or 7.4 per cent of GDP.⁶ This is based on NBE figures, which put remittances at USD 3.7 billion in 2015.⁷

However, official figures from the World Bank are far lower, placing the total received in 2014 at USD 624 million, which would make only 0.29 per cent of GDP. The NBE record of 'cash transfers' from private individuals are estimated at USD 2.7 billion in 2014/2015, which is almost four times the World Bank estimate.

The disparity in figures recorded is not uncommon and reflects differing approaches to data collection and reporting,⁸ which in turn highlights the inherent difficulty in obtaining consistent, accurate data when calculating total remittance flows.

However, both NBE figures and World Bank figures show a substantial increase in remittances in the last few years, from USD 790.3 million in 2009 to USD 2.7 billion in 2015,⁹ and from USD 262 million in 2009 to USD 624 million in 2015, respectively. Both sets of figures suggest a two to three-fold increase over the last six years. Estimates suggest that over the past 20 years international remittances inflows to Ethiopia have grown over fifty-fold.¹⁰

**FIGURE 1
ESTIMATED
REMITTANCE INFLOWS,
ETHIOPIA**



Source: World Bank

**FIGURE 2
ESTIMATED
REMITTANCE INFLOWS,
ETHIOPIA**



Source: National Bank of Ethiopia reports

INFORMAL REMITTANCE FLOWS

Informal remittances are defined as remittances that do not pass through officially regulated businesses at both the send and receive ends of a transaction. All sending and receiving countries impose regulations for RSPs. However, not every sender is able, or chooses, to send money via a regulated business. Rather, they may be forced or choose to send money via an informal method. Informal methods include: hand carrying foreign currency, giving foreign currency to someone travelling to Ethiopia, using an unregulated money transfer operator (often known as hawala), or sending physical goods.

Official figures vastly underestimate the total value of remittances to Ethiopia. This is largely due to the extent of the informal remittances market.¹¹ Estimating informal flows into Ethiopia is extremely difficult.

However, drawing on a variety of data sources, high-level estimations can be made regarding the size of the informal market. Household surveys, combined with migrant stock and flow data, can be very helpful in building a truer reflection of the total remittances markets, including both the formal and informal volumes.

A World Bank national survey found that an average of 14 per cent of adults or 5.4 million people were on average receiving USD 120 a year, totalling an estimated USD 3.2 billion.¹² Remittances received by the NBE were recorded as USD 1.8 billion in the same year. This would imply a shortfall of around USD 1.4 billion, which is roughly approximate to the World Bank's estimate that 50 per cent of remittances flow through informal methods globally.¹³

Figures 3 and 4 estimate the potential remittance flows that are being captured by the informal market by corridor. It uses approximate estimations of the number of migrants (irregular and regular) in both the Kingdom of Saudi Arabia and South Africa, and combines this with estimations of the level of remittances individuals would be sending back using the data of returnees from the Kingdom of Saudi Arabia as a proxy (namely 73 per cent sending USD 1,080 per year).¹⁴ It then compares this to the World Bank Bilateral Matrix estimates to try and understand how much is currently flowing through the formal system compared to how much is likely being sent in total.¹⁵

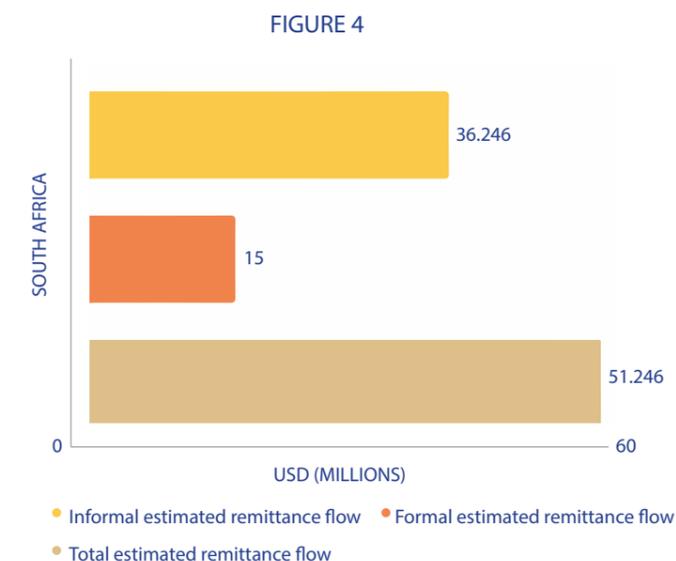
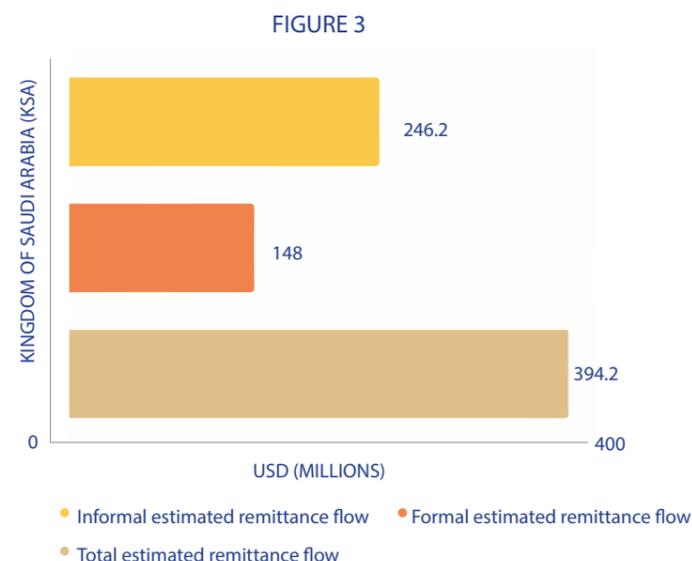
Using this method, the total remittance flows from the Kingdom of Saudi Arabia could be as much as USD 394 million annually. (This uses the conservative estimate of 500,000 Ethiopians living in the Kingdom of Saudi Arabia.)¹⁶ However, the World Bank only records USD 148 million, around 50 per cent of the total flows, which is similar to other estimates above.

If the Ethiopian Ministry of Foreign Affairs (MOFA) estimates are taken (namely, that there are 750,000 Ethiopians living in the Kingdom of Saudi Arabia), the total remittance flows would be estimated to be closer to USD 590 million. This is almost four times the figure estimated in the World Bank Bilateral Matrix. This would suggest a significant shortfall in remittances sent through formal channels (although this should be taken as a high-level estimation of the potential formal flows – see Figure 5).

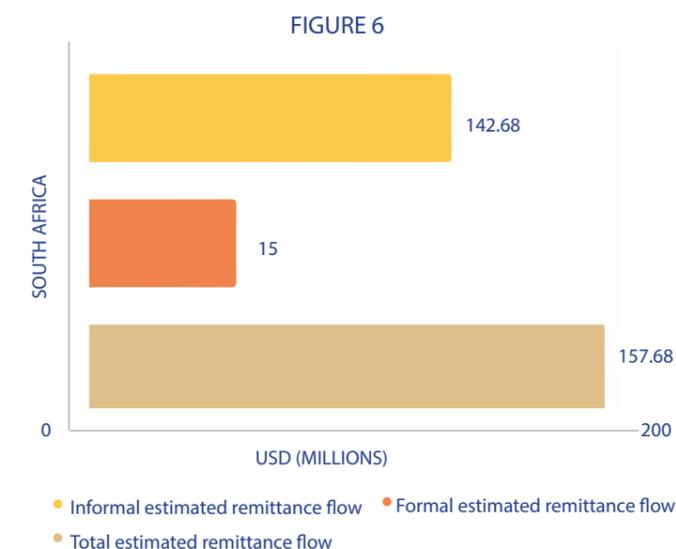
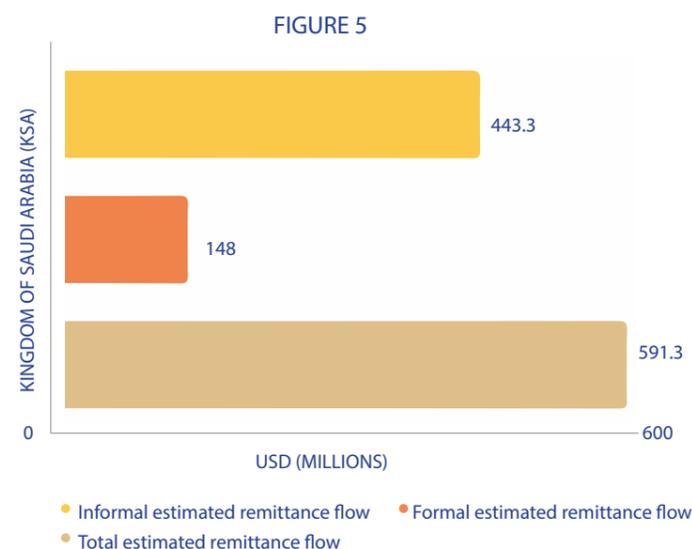
Similarly, when taking 65,000 as a conservative estimate of the number of Ethiopians living in South Africa, remittance flows could be as high as USD 51 million.¹⁷ However, the World Bank's Bilateral Matrix data suggests they are closer to USD 15 million – over three times less than what may be sent (see Figure 4).

If the upper estimate given by MOFA is used (200,000 Ethiopians living in South Africa), the potential annual remittances sent could be as high as USD 158 million. This is over ten times the amount the World Bank suggests flows through this corridor.

Although any method to quantify informal remittances will be an estimate, the significant amount of foreign exchange being lost by the Government can still be highlighted. In turn, this can provide the evidence required to encourage the creation of policies focused on scaling the volume of formal remittances through market interventions while also addressing some of the challenges that result in irregular migration. For example, out of the USD 748.98 million estimated to have been sent from these two countries, 78 per cent was sent informally (based on calculations illustrated in Figures 5 and 6).



Source: Author's calculation¹⁷
 Note: Figures 3 and 4 are based on conservative estimates of Ethiopians living in South Africa and KSA (65,000 in South Africa¹⁸ and 500,000 in KSA)



Source: Author's calculation
 Note: Figures 5 and 6 are based on the Ethiopian Ministry of Foreign Affairs (MoFA) estimates of Ethiopians living in South Africa and KSA (200,000 in South Africa and 750,000 in KSA)¹⁹

RECOMMENDATIONS

To leverage the true gains from remittances, it is essential that the flow through formal channels is enhanced. There are two distinct customer segments that need to be addressed to achieve this. The first are undocumented migrants in countries where undocumented migrants are not able to send money. In other words, those who cannot use formal channels due to their immigration status. The second are documented migrants (particularly in Europe and North America) who are able to use formal channels, but who, for a variety of reasons, choose not to do so.

Barriers preventing the use of formal channels include:

- ▶ Convenient access to formal remittance pay-out channels, particularly in rural areas, remains a challenge in Ethiopia despite remarkable improvements in the last few years
- ▶ Costs of using formal channels
- ▶ Direct cost, which varies by corridor, product, and service provider
- ▶ Comparative cost – which includes the cost compared to informal services and takes into account the existence of a parallel exchange market. Interviews with stakeholders and diaspora groups suggest that this is the single greatest factor in the reluctance to use formal remittance channels
- ▶ Indirect cost- such as the cost of transport and the time taken to get to the remittance pay-out location, including time taken to wait in queues
- ▶ Speed of service – particularly to rural areas

In identifying the recommendations below, two critical messages need to be highlighted. First, a multifaceted approach needs to be adopted for the recommendations to have the greatest possible impact. Many of the recommendations, if carried out alone, would only have limited impact on the overall remittance environment. For example, supporting pay-out locations in isolated areas through technical assistance would need to be combined with measures that increase transparency and competition. This would entail raising awareness of the availability of multiple services in order to have the greatest impact.

To leverage the true gains from remittances, it is essential that the flow through formal channels is enhanced

Secondly, many of the recommendations will impact multiple barriers to varying degrees. While some recommendations clearly address specific barriers, others have a far-reaching effect across multiple aspects of the market.

1

Introduce a remittance multi-stakeholder working group focused on remittances and diaspora investment

One of the key recommendations arising throughout the report is the introduction of a multi-stakeholder working group related to facilitating productive remittances. This acknowledges that facilitating remittances requires a multifaceted approach and that remittances do not occur in isolation. Rather, the challenges associated with remittances can be highly complex, involving several ministries, disciplines, and competing agendas. The report therefore concludes that regular and open discussions between Government ministries and other key stakeholders in both the private and public sector are of critical importance.

2

Encourage formal data collection on remittances and diaspora investment

A second key recommendation, related to the above, is to focus on obtaining accurate, reliable and frequent data collection relating to remittances and diaspora investment. It is recognised that this is an ongoing challenge with remittances globally. As part of this broad recommendation, this report focuses particularly on the re-introduction of household surveys relating to remittances and financial inclusion more generally. Other important data tools which might be considered include mapping financial access points, mapping the diaspora in the sending country, and encouraging the dissemination of data from the private sector (where possible). This will not only ensure that initiatives and policies are fit for purpose, but also that they target the regions and areas that are most in need, which will support the most effective use of resources.

3

Improve irregular migrants' access to formal remittances by addressing the issue of identification

Undocumented migrants in many of the key sending countries to Ethiopia are prevented from accessing the formal remittance system. Overall, it is estimated that 60-70 per cent of migrants travelling to Gulf States are undocumented and this figure may be greater for migrants travelling to Southern Africa. Therefore, it is important for the Government of Ethiopia to reach an agreement with the host country that would allow the acceptance of an identification document that is not linked to the immigration status of the migrant. This would have the greatest positive impact on enabling those who are currently forced to use informal remittances to be able to use formal services. The most relevant global example of this solution has been used by Mexican nationals in the United States where the Mexican Government has issued a document called the matricula consular. In turn, financial institutions in the United States accept the matricula consular as a valid form of identification for the purpose of conducting a range of financial services. However, this recommendation does acknowledge the inherent challenges with introducing such a scheme. Such an initiative may have a greater chance of success if it is undertaken on a multilateral as well as a bilateral level.

4

Promote formal routes of migration

In the long-term, increasing and promoting formal routes of migration, including creating bilateral agreements with governments and awareness among Ethiopian migrants, will be essential to supporting the flow of formal remittances. This is particularly important because of the difficulties undocumented migrants face in accessing the formal remittance system in many countries.

5

Support remittance pay-out locations in rural areas

One of the regular pieces of feedback from the Ethiopian diaspora is that there are insufficient pay-out locations in rural areas. Improving this requires a multi-faceted approach. Suggestions include:

- ▶ Mapping the current and potential access points and combining this with a nationwide household survey focusing on remittance receivers
- ▶ Continuing to support the increase of bank branches in the right areas, particularly in isolated localities
- ▶ Supporting microfinance institution (MFI) branches and post offices to become sub-agents of banks²⁰

6

Support the introduction of new technology in the payments system

Mobile payments undoubtedly present a major opportunity to lower remittance costs and to improve outreach. However, barriers remain both domestically and internationally, and mobile money currently remains in its infancy in Ethiopia compared to some other African countries. Recommendations therefore include:

- ▶ Continuing to increase reliable network coverage in isolated areas
- ▶ Enhancing the current regulatory environment for mobile financial services
- ▶ Providing measures that increase the number of locations where receivers of payments can collect their money (this will involve the use of agent networks and will help in providing terminals that can be used to collect money, particularly in isolated areas)
- ▶ Undertaking nationwide marketing campaigns, which encourage the use of mobile payments for domestic transactions, supporting verticals such as MFI payments and Government payments paid out onto mobile wallets
- ▶ Undertaking pilot exercises between a neighbouring country

7

Improve awareness and financial education in Ethiopia, particularly surrounding new technologies

The implementation of the National Financial Inclusion Strategy will be an essential step in achieving higher levels of financial education and inclusion. It is highly recommended that remittances (and the paying-out of them by banks to otherwise financially excluded households) are seen as priorities in achieving financial inclusion goals. Therefore, part of the National Financial Inclusion Strategy should include specific elements that relate to remittances.²¹

8

Increase competition

Despite the tremendous progress in increasing competition within Ethiopia, options for sending money to Ethiopia are limited. Measures to help increase competition include:

- ▶ Taking steps to remove the parallel (black) market
- ▶ Enhancing the regulatory environment for new technology
- ▶ Encouraging more businesses in the main diaspora countries to form partnerships with Ethiopia based pay-out locations
- ▶ Encouraging Ethiopian banks to consider opening locations in countries where there are known to be large numbers of Ethiopians. Note, these do not need to be bank branches, but could be money

transfer locations

- ▶ Developing open communication channels between the NBE and money transfer companies around the world to address any misunderstandings that may exist in respect to the regulations and operating environment for remittances in Ethiopia

9

Increase transparency

Transparency in the sector can be enhanced by:

- ▶ Developing price comparison sites
- ▶ Introducing regulations around transparency
- ▶ Rolling out publicity campaigns to educate consumers about money transfer options
- ▶ Ensuring that banks in Ethiopia provide clear information to consumers about which international money transfer operators they partner with
- ▶ Undertaking pilot exercises between a neighbouring country

10

Encourage the use of online methods in the sending country

Cutting out the agent in the first mile significantly reduces the cost of transferring money. Several RSPs are now offering this service in the send market, notably in the United States, the United Kingdom, and Italy. However, the global uptake of these new services has not been rapid, despite the reduction in price that they deliver. This may be due to a lack of awareness of the services among senders, combined with an inherent loyalty to visiting a community agent in the send country and a lack of trust in new services. It is recommended that the GOE encourage or advocates that sending country governments develop marketing and awareness campaigns targeted at migrants on the advantages of using digital methods for making money transfer payments.

11

Subsidise the introduction of new technology and the training of staff in rural branch networks

Service is slower than desirable in rural parts of Ethiopia due to poor infrastructure. Often a rural location has to phone a regional centre, or head office, to be able to undertake a remittances pay-out transaction. This results in a slower transaction time and is more prone to fraud and error. Recommendations include examining ways to help provide internet facilities in rural locations as well as funding staff training in rural locations.

12

Leverage remittances for financial inclusion

In Ethiopia, the low levels of financial inclusion and relatively low monthly income of many remittance recipients create an opportunity for leveraging remittances as a tool for financial inclusion. Compounding this is the fact that remittance pay-outs may be one of the only times remittance recipients come into contact with financial services, particularly on a regular basis. Recommendations for leveraging remittances as a point of financial inclusion include:

- ▶ Using the remittance pay-out locations as 'education centres' for financial services to train receivers when they come to collect money

- ▶ Leveraging remittances and financial education to encourage savings. There are a number of global initiatives that address this area
- ▶ Leveraging remittances and financial education to encourage low-level investment. Again, there are a number of global initiatives that provide solutions in this area

13

Encourage investment of migrant capital

The GOE has long been aware of the importance of the Ethiopian diaspora in contributing to long-term sustainable development. In the last decade, it has introduced several innovative initiatives to try and enhance the productive potential of remittances. There are, however, multiple examples around the world of instances where remittances have been used to facilitate improvements in the infrastructure in the origin towns/cities/districts of migrants. One particular example that the GOE may wish to examine is the introduction of matched funding schemes where diaspora remittances are matched 'dollar-for-dollar' or 'birr for birr' by local councils or the central government. The funds would be specifically used for infrastructure projects.

CONCLUSION

This report identifies action areas which, if implemented, would build on the tremendous progress that the GOE has made in the area of remittances in recent years. In order to achieve these, an action-oriented working group should be established. The group would develop recommendations based on the contents of this report, produce implementation plans, and assign responsibilities. It would also measure progress and develop alternative solutions for new initiatives as they are developed.

SUMMARY OF HIGH PRIORITY RECOMMENDATIONS

NO.	RECOMMENDATION	ACTIONS POINTS	SUGGESTED RESPONSIBILITY	TIME FRAME	PRIORITY
1	Introduce a multi-stakeholder working group	Create a multi-stakeholder working group focused on the topic of remittances and diaspora investment	MOFA NBE IOM	Short term/ ongoing	High
2	Implement the National Financial Inclusion Strategy currently in development	Ensure the implementation of the National Financial Inclusion Strategy and prioritize remittances as a specific tool for aiding financial inclusion	NBE	Medium term/ ongoing	High
3	Introduce awards and recognition schemes	Introduce awards and recognition schemes for top performing remittance companies, for example, awards for speed of service, price, distribution networks, improving access to other financial services, use of digital technology, customer service and so on	GOE MOFA	Short term/ ongoing	High
4	Carry out household surveys	Introduce consistent and frequent household surveys focused on remittances and financial inclusion more broadly	GOE	Medium term/ ongoing	High

The prioritisation of recommendations is based on the potential impact of the action on improving the formal remittance flow and its support to sustainable economic development. A timeframe scale of short (under 12 months to implement), medium (1-3 years to implement), and long (over 3 years of implementation) is used.

MOFA - Ministry of Foreign Affairs, NBE - National Bank of Ethiopia, IOM - International Organization for Migration, GOE - Government of Ethiopia.

TARGETED RECOMMENDATIONS

NO.	RECOMMENDATIONS	KEY BARRIERS ADDRESSED	ACTIONS POINTS	FURTHER ACTIONS (WHERE REQUIRED)	SUGGESTED RESPONSIBILITY	TIME FRAME	PRIORITY
1	Improve irregular migrants' access to formal remittances by addressing the issue of identification	Access to formal remittance services in the send countries	Engage governments in countries hosting large numbers of undocumented Ethiopian migrants with the purpose of negotiating agreements/concessions permitting the use of alternative identification documents to send money through formal channels. The 'Ethiopian Origin Card' is an example of an alternative identification document	Importantly, the likely success of this action is contingent on coordinated action by a number of governments/ countries that are similarly affected as well as high level diplomatic intervention by multiple stakeholders, including international organizations	GOE MOFA	Long term	High
2	Promote formal routes of migration	Access to formal remittance services in the send countries	Provide Ethiopians with pre-departure education and information about regular migration options. This should include generating awareness of a range of regular migration options and alternative options that exist within Ethiopia. In addition, efforts should be made to create awareness of the dangers of irregular migration and human trafficking		GOE MOFA Ministry of Labour and Social Affairs	Short term/ ongoing	High
3	Support remittance pay-out locations in rural areas	Access to formal remittance services in Ethiopia	3.1 Map current and potential financial access points and combine with a nationwide household survey focusing on remittance receivers		GOE	Medium term/ ongoing	High
			3.2 Continue to support the increase of bank branches, particularly in remote localities		NBE	Short term/ ongoing	High
			3.3 Support MFI branches and post offices to become sub-agents of banks	3.3.1 Establish a working group to help develop a commercial agreement between the parties	NBE	Short term/ ongoing	Medium

NO.	RECOMMENDATIONS	KEY BARRIERS ADDRESSED	ACTIONS POINTS	FURTHER ACTIONS (WHERE REQUIRED)	SUGGESTED RESPONSIBILITY	TIME FRAME	PRIORITY	
4	Support the introduction of new technology in the payments system	Access to formal remittance services in Ethiopia, high remittance costs, speed of service	4.1 Support domestic uptake of mobile money	4.1.1 Enhance the regulatory environment for new technology domestically	NBE	Medium term	High	
				4.1.2 Support domestic agent network growth and digital acceptance terminals, particularly in remote areas	NBE	Medium term	High	
				4.1.3 Support nationwide awareness/ education campaigns	NBE	Medium term	High	
				4.1.4 Support of verticals such as MFI payments and Government payments paid out onto mobile phones	GOE NBE	Medium/ long term	High	
				4.1.5 Continue to increase reliable telephone network coverage in isolated areas	GOE Ministry of Transportation and Ministry of Communication and Information Technology	Long term/ ongoing	High	
				4.2 Facilitate international remittances through mobile money	4.2.1 Regulate mobile money cross-border payments	NBE	Medium term	
					4.2.2 Establish extensive communication and marketing campaigns among the diaspora to drive awareness and use of remitting directly to mobile wallets in Ethiopia	MOFA	Medium/ long term	

NO.	RECOMMENDATIONS	KEY BARRIERS ADDRESSED	ACTIONS POINTS	FURTHER ACTIONS (WHERE REQUIRED)	SUGGESTED RESPONSIBILITY	TIME FRAME	PRIORITY
5	Improve awareness and financial education by ensuring the prioritization of remittances in the National Financial Inclusion Strategy	Access to formal remittance services in Ethiopia; high remittance costs; speed of service; limitations in maximising the productive potential for remittances	5.1 Include remittances as a key tool for financial education and inclusion in the National Financial Inclusion Strategy		NBE	Medium term/ongoing	High
6	Increase competition	High remittance costs	6.1 Enhance the regulatory environment for new technology		NBE	Medium term	High
			6.2 Encourage more businesses in the main diaspora countries to form partnerships with Ethiopian pay out entities		MOFA	Medium term	Medium
			6.3 Encourage Ethiopian banks to consider opening branches and/or money transfer businesses in countries where there are known to be large numbers of Ethiopians		MOFA	Short/medium term	Medium
			6.4 Encourage Ethiopian banks to consider obtaining a payments licence in countries where there are known to be large numbers of Ethiopians		MOFA	Short/medium term	Medium
			6.5 Understand the dissemination mechanics that should be developed to allow information to be shared with private sector operators around the world. Information should include the approach to advising the sender of exchange rates, regulatory framework etc.	6.5.1 Establish which methods are available to inform money transfer operators globally, for example, trade bodies, global fora and so on.	GOE	Medium term	Medium
			6.6 Increase transparency	6.6.1 Increase and enforce regulations regarding transparency	GOE NBE	Short term	Medium
				6.6.2 Introduce publicity campaigns with consumers	GOE NBE	Short term	Medium
				6.6.3 Consider introducing a price comparison portal	GOE NBE	Short/medium term	High
6.6.4 NBE to maintain and consistently update the data already publicly available on its website	NBE	Short term		Medium			
7	Introduce incentives for lowering costs	High remittance costs	7.1 Consider introducing a short-term solution for encouraging the switch to formal remittances similar to the Pakistan Remittances Initiative (PRI)		GOE MOFA	Short/medium term	Medium
8	Increase awareness of formal channels in the send countries, including new innovations	Access to formal remittance services in Ethiopia; high remittance costs; speed of service	8.1 Consider introducing tools such as a price comparison website (SendMoneyPacific). Note the African Union's Send Money Africa and World Bank's Remittance Prices Worldwide are good reference points for policy makers but are not focused on consumers		GOE MOFA	Short term/ongoing	High

NO.	RECOMMENDATIONS	KEY BARRIERS ADDRESSED	ACTIONS POINTS	FURTHER ACTIONS (WHERE REQUIRED)	SUGGESTED RESPONSIBILITY	TIME FRAME	PRIORITY
9	Subsidise the introduction of new technology and training of staff in rural branch networks	Speed of service	9.1 Subsidise technology in local bank branches, particularly broadband		NBE	Medium term/ongoing	High
			9.2 Subsidise the training of staff, particularly in the use of new technology		NBE	Short term/ongoing	High
10	Provide incentives for faster services	Speed of service	10.1 Introduce awards recognising top performing remittance service providers, which includes speed of service		GOE MOFA	Short term/ongoing	Medium
11	Leverage remittances for financial inclusion	Limitations in maximising the productive potential for remittances	11.2 Leverage remittances and financial education to encourage savings		MOFA	Short term/ongoing	High
			11.3 Leverage remittances and financial education to encourage low-level investment		MOFA	Short term/ongoing	High
			11.4 Encourage banks to develop remittance backed products	11.4.1 Use global examples to convey the potential of remittance backed products, combined with publicly available household surveys and market studies to enable banks to understand their market and target regions.	MOFA, Private sector	Medium term	High
12	Encourage investment of migrant capital	Limitations in maximising the productive potential for remittances	12.1 Review global initiatives to gain further learning and to examine whether similar initiatives would be effective in the country, particularly matched-funding schemes		MOFA NBE	Medium term	High
13	Promote the dissemination of information among the diaspora population	Limitations in maximising the productive potential for remittances	13.1 Continue to support business forums and missions focused on the diaspora, with the aim of bridging information gaps		MOFA	Short term/ongoing	High
			13.2 Maintain lists of private investment opportunities		NBE MOFA	Short term/ongoing	Medium
			13.3 Consider local and regional initiatives directly targeting migrants and their families	13.3.1 Consider developing a diaspora investment information web portal hosted on MoFA's website.	MOFA	Medium term/ongoing	Medium
			13.4 Continue to encourage and utilize the role of embassies and consulates to provide information		MOFA	Short term/ongoing	Medium
			14.1 Use a variety of tools to map the diaspora communities in the host countries		GOE	Short term/ongoing	High
14	Encourage formal data collection and commission relevant market research	Limitations in maximising the productive potential for remittances	14.2 Commission relevant market research and/or collaborate with other stakeholders where possible		GOE	Short term/ongoing	Medium
			14.3 Conduct frequent household surveys		GOE	Short term/ongoing	High

MOFA - Ministry of Foreign Affairs, NBE - National Bank of Ethiopia, IOM - International Organization for Migration, GOE - Government of Ethiopia.

ENDNOTES

1. According to the Ministry of Foreign Affairs.
2. G20 Development Working Group on Financial Inclusion and Remittances. (2014). *G20 Plan to Facilitate Remittance Flows* (2014). <http://www.international.gc.ca/g20/assets/pdfs/G20-PlanToFacilitateRemittanceFlows.pdf>.
3. Information on directives is available at <http://www.NBE.gov.et>. Directive FXD/30/2006, "Provisions of International Remittance Service".
4. Non-resident Ethiopians' defined as (a) All Ethiopian nationals living and working abroad for more than one year (b) Business entities owned by non-resident Ethiopians and located outside the Ethiopian territory for more than one year and/or (c) Ethiopian nationals living and working abroad or in due process of leaving abroad for work more than one year. Accounts are also open to 'Non-Resident (NR) Foreign National of Ethiopian Origin' which is defined as (a) A non-resident and holder of a valid identification card and/or (b) A business entity owned by non-resident foreign nationals of Ethiopian origin and located outside the Ethiopian territory. Source: NBE (2006) Directive No. FXD/31/2006.
5. Information on directives is available at <http://www.NBE.gov.et>. See Directive FXD/31/2006. 'Establishment and Operation of Foreign Currency Account for Non-Resident Ethiopians and Non-Resident Ethiopian Origin.'
6. IMF and International Development Association figures 2015.
7. This includes 'underground' and 'in kind' transfers.
8. For instance, the NBE figures try to capture, at least in part, informal flows.
9. Note that the Ministry of Foreign Affairs (MoFA) has published a figure of USD 4 billion for remittances received in the first ten months of fiscal year 2015 -2016.
10. Ghosal. (2015). 'Workers' remittances, one of the reliable sources of capital inflows to Ethiopia – Its performance analysis towards shaping the economic growth.' *International Journal of Interdisciplinary and Multidisciplinary Studies (IJIMS)*. 2015, Vol 2, No.6, 174-185. <http://www.ijims.com/uploads/f1c6566c02c383d5fd1e27pdf.pdf>.
11. Carter and Rohwerder. (2016). *Rapid Fragility and migration assessment for Ethiopia*. GSRDC http://www.gsrdc.org/wp-content/uploads/2016/02/Fragility_Migration_Ethiopia.pdf.
12. World Bank. (2011). *Ethiopia – Future of African Remittances: National Surveys 2010*. <http://microdata.worldbank.org/index.php/catalog/595>.
13. World Bank. (2010). 'Outlook for Remittance Flows 2010-2011'. Migration and Development Brief.
14. IOM *Assessment of the socio-economic situation and needs of Ethiopian returnees from KSA*. (2014).
15. World Bank. (2015). *Bilateral Remittance Estimates for 2015 using Migrant Stocks, Host Country Incomes, and Origin Country Incomes (millions of US\$)* (October 2016 Version). http://www.knomad.org/docs/Migration_Development/bilateralremittancematrix2015_Oct2016.xlsx.
16. 'Ethiopia, Saudi Arabia to Conclude Labour Recruitment Contract' (2015). *The Ethiopian Herald*. <http://allafrica.com/stories/201508270774.html>.
17. Based on these numbers, the estimated flow of remittances (total) is calculated using the proportion of migrants who are likely to be sending remittances to Ethiopia (73% based on IOM study of returnees from the Kingdom of Saudi Arabia) [see Endnote 14], combined with the average estimated amount that is being sent back per year per migrant (USD 1,080, based on the IOM study of returnees from the Kingdom of Saudi Arabia) [see Endnote 14]. This is then compared to the figures given in the World Bank Bilateral Matrix for both corridors, which are used to provide calculations of the current formal flows [see Endnote 15]. The shortfall, or estimated informal remittance flow, is the difference between the estimated remittance flow (total) and the remittance flow (formal). Finally, the estimated figure for Ethiopians living in South Africa is based on numbers from Kefale and Moahmmed. (2016). *Ethiopian Labour Migration to the Gulf and South Africa* and the estimated figure of Ethiopians living in the Kingdom of Saudi Arabia is based on a figure regularly cited and quoted in news agencies. For example, <http://allafrica.com/stories/201508270774.html> and <http://www.arabnews.com/node/1010141/saudi-arabia>.
18. This is a conservative estimate based on Kefale and Mohammed. (2016). *Ethiopian Labour Migration to the Gulf and South Africa*.
19. MoFA figures based on discussions during research for this report. Based on these numbers, the estimated flow of remittances (total) is calculated using the proportion of migrants who are likely to be sending remittances to Ethiopia (73% based on IOM study of returnees from the Kingdom of Saudi Arabia) [see Endnote 14], combined with the average estimated amount that is being sent back per year per migrant (USD 1,080, based on IOM study of returnees from the Kingdom of Saudi Arabia) [see Endnote 14]. This is then compared to the figures given in the World Bank Bilateral Matrix for both corridors, which are used to provide calculations of the current formal flows [see Endnote 15].
20. MFIs and post offices can become agents of banks under current regulations, but are not permitted to handle foreign exchange themselves. However, sources suggest this is not happening in practice.
21. The World Bank is supporting the Government of Ethiopia to prepare and adopt a National Financial Inclusion Strategy. <http://www.worldbank.org/en/topic/financialinclusion/brief/financial-inclusion-support-framework> According to one interviewee, a draft of the National Financial Inclusion Strategy has been prepared. There is a unit established in the National Bank of Ethiopia (NBE) which focuses on financial inclusion.

